

SENATE BILL REPORT

HB 2824

As Reported by Senate Committee On:
Ways & Means, April 7, 2012

Title: An act relating to addressing comprehensive funding for education by developing a plan for full funding and by freeing certain existing revenues for support of the basic education program.

Brief Description: Addressing comprehensive funding for education by developing a plan for full funding and by freeing certain existing revenues for support of the basic education program.

Sponsors: Representatives Eddy and Hunter.

Brief History: Passed House: 4/06/12, 69-26; 4/06/12, 68-26.

Committee Activity: Ways & Means: 4/07/12 [DPA].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Brown, Harper, Hatfield, Holmquist Newbry, Honeyford, Kastama, Padden and Schoesler.

Staff: Elise Greef (786-7708)

Background: Basic Education. In the 2009-11 biennium, two pieces of legislation were enacted to redefine basic education and restructure the K-12 funding formulas. The first was Engrossed Substitute House Bill 2261 (Chapter 548, Laws of 2009), which expanded the definition of basic education and established a framework for a new K-12 funding allocation formula based on prototypical schools. These changes took effect September 1, 2011. The bill also contained a statement of legislative intent that the redefined program of basic education and funding for the program be fully implemented by 2018.

The second bill, Substitute House Bill 2776 (Chapter 236, Laws of 2010) enacted in statute the new prototypical school allocation formulas at funding levels that represented the 2009-10 school year state spending on basic education. The bill also established a timeline for phasing in enhancements to the program of basic education and its funding levels as follows:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

- During the 2011-13 biennium the K-3 class size must be reduced to 17 students per teacher, beginning with the schools with the highest poverty students, by 2017-18.
- During the 2011-13 biennium, the minimum allocation for maintenance, supplies, and operating costs (MSOC) must be increased as specified in the omnibus appropriations act until specific amounts are provided in the 2015-16 school year.
- During the 2011-13 biennium, funding for all-day kindergarten must continue to be phased in each year until full statewide implementation is achieved in the 2017-18 school year.
- During the 2011-13 biennium, funding for a revised formula for pupil transportation must begin and be fully implemented by the 2013-15 biennium.

Partial implementation of the four enhancements described above is included in the appropriations approved by the Legislature for the 2011-13 biennium. These appropriations include approximately \$5 million for full-day kindergarten enhancements in select school districts, approximately \$33.6 million to reduce class sizes in grades K-3 in high poverty school districts, \$5 million for pupil transportation, and inflationary increases to the MSOC formulas.

Based on current enrollment figures, future enrollment projections and inflation projections, the estimated cost of fully implementing the four enhancements included in Substitute House Bill 2776 is approximately \$1.6 billion in fiscal year (FY) 2018. This estimate assumes each enhancement is evenly phased in beginning in FY 2014, completed by each respective fiscal year deadline and, if required by current legislation, increased by inflation.

Initiative 728. In November 2000, Initiative 728 (I-728) was approved by Washington voters. Under I-728 a portion of certain state revenues were dedicated to the Student Achievement Fund. School districts were given the discretion to use the I-728 related funding for any of six activities for improving student achievement. These activities included:

- reductions in K-4 class size;
- selected class size reductions in grades 5-12;
- extended learning opportunities for students who need or want additional time in school;
- investments in educators and their professional development;
- early assistance for children who need pre-kindergarten support in order to be successful in school; and
- providing improvement or additions to facilities to support class size reductions and extended learning opportunities.

Upon initial approval, \$140 per pupil of the state property tax was directed to the Student Achievement Fund, created by the initiative, for calendar years 2001 through 2003. As directed in the I-728, the dedicated funding to the Student Achievement Fund would increase in 2004 to \$450 per pupil and be adjusted for inflation thereafter. However, the 2003 Legislature revised the per-pupil amounts of the state property tax to be placed in the Student Achievement Fund to \$140 in the 2003-04 school year, \$254 in 2004-05, \$300 in 2005-06, \$375 in 2006-07, and \$450 in 2007-08. Each year after 2007-08, the per-pupil figure was to be adjusted annually for inflation.

In 2008 the Legislature made additional adjustments to the Student Achievement Fund. In 2008, the amount dedicated to the Student Achievement Fund was \$458.10. For the 2009-10

school year, the per-pupil appropriations began to be specified in the omnibus appropriations act and the figure was reduced to \$131.16. Concurrently, the Student Achievement Fund was consolidated into the state General Fund under Engrossed Substitute Senate Bill 5073, and the Student Achievement Act and the Student Achievement Fund became the Student Achievement Program. Funding for the program was suspended in the 2010-11 school year and continues to be suspended through 2012-13.

In the coming 2013-15 biennium, it is expected the I-728 per-pupil allocations will cost a total of \$913 million, assuming per-pupil allocations of \$498.37 and \$508.84. In 2015-17, it is estimated the allocations will total \$1.068 billion, assuming per-pupil allocations of \$520.03 and \$529.91.

Lottery Funds and Education. As a result of the passage of I-728 in 2000, all lottery revenues were dedicated for educational purposes (with the exception of about 10 percent, which was dedicated by previous legislation for debt service on the stadium in Seattle). For fiscal years 2001-2004, a portion of lottery revenues were distributed to school districts for Student Achievement Program purposes. The remainder was deposited into the Education Construction Account, which is used to fund a portion of the state matching funds for K-12 public school and higher education construction. For fiscal years 2005 through 2009, all lottery revenues were deposited into the Education Construction Account.

In 2009 the Legislature redirected lottery dollars to the state General Fund to support a range of state programs, including education, for fiscal year 2010. K-12 school construction costs were covered with additional general obligation bonds for the 2009-11 biennium. Also in 2009, the Legislature approved the sale of the multi-state game Powerball. While the education construction fund has been the lottery's largest beneficiary, the lottery has been directed by the Legislature to make contributions to stadium funding and problem gambling prevention and treatment.

While I-728 dedicated lottery revenues to educational purposes, the Legislature passed legislation in 2002 that authorized a new lottery game not subject to the distribution for educational purposes. The legislation authorized participating in a multi-state lottery – now named Mega Millions – with the profits from the game going to the state General Fund. The legislation had provisions addressing the concern that some people might play the new multi-state lottery rather than the existing lottery games and, therefore, diminish the base revenues for educational purposes. For this reason, the legislation required \$102 million in annual transfers to make the educational-related accounts whole before distributing any excess profits to the General Fund. In other words, it was intended that the educational-related activities would receive as much money as they would have without the multi-state lottery.

In 2010 the Legislature created the Washington Opportunity Pathways Account. Beginning in fiscal year 2011, all net revenues from in-state lottery games not otherwise dedicated to debt service on Safeco Stadium and Qwest Field and the Exhibition Center were dedicated to the new account. All net income from the multi-state lottery games, other than those dedicated to the Problem Gambling Account, are now deposited into the Washington Opportunity Pathways Account rather than into the state General Fund and are used for specified programs (early learning, higher-education, and economic-development programs). A provision of the legislation creating the Washington Opportunity Pathways Account requires

a transfer of \$102 million per year from the state General Fund to the Education Construction Account to maintain the same level of support for education construction. In the 2011 session, the \$102 million per year transfer was suspended for the 2011-13 biennium and K-12 school construction costs that would have been funded with the transfer were covered with additional general obligation bonds for the biennium.

Summary of Bill: A joint task force on education funding is created, consisting of four members of the Senate, four members of the House of Representatives, and three individuals appointed by the Governor. The task force is required to develop a proposal for funding the state's program of basic education including the programmatic enhancements required by Substitute House Bill 2776. The task force is staffed by Senate Committee Services, the Office of Program Research, and the Office of Financial Management with assistance from the Washington State Institute for Public Policy and other agencies as necessary.

The task force's final report must be submitted to the Legislature by December 31, 2012.

The statutory requirement to provide funding in specified per-pupil amounts for the Student Achievement Program, originally enacted in 2000 as Initiative 728, is repealed.

Statutory references to the Student Achievement Program are removed and any funding previously dedicated to the Student Achievement Program is dedicated to support of basic education and the common schools.

Statutory reference to the Student Achievement Program in the school district levy-base statute is removed, while the provisions that allow the levy base to include unreceived I-728 revenues through 2017 – when those provisions were originally set to expire – are retained.

The \$102 million annual transfer that, under current statute, must be transferred from the state General Fund to the Education Construction Account is, instead, redirected to the Education Legacy Trust Account. The purposes of the Education Legacy Trust Account are expanded to include permission to transfer funds to the school construction account.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): Statutory reference to the Student Achievement Program in the school district levy-base statute is removed, while the provisions that allow the levy base to include unreceived I-728 revenues through 2017 – when those provisions were originally set to expire – are retained.

The \$102 million annual transfer that, under current statute, must be transferred from the state General Fund to the Education Construction Account is, instead, redirected to the Education Legacy Trust Account. The purposes of the Education Legacy Trust Account are expanded to include permission to transfer funds to the school construction account.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: Yes.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Companion Senate Bill 6618 (Proposed Striker):

OTHER: We have not had a chance to study the language of the striker, as it became available only recently; so have concerns about the changes to the school district levy-base statutes.

Persons Testifying: OTHER: Charlie Brown, School Alliance.